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ABSTRACT

Several major reasons for municipal overburden have been identified by authorities. These include the following: (1) it is more expensive to provide public services in urban areas; (2) the socioeconomic characteristics of urban residents place heavy demands on municipal services; (3) city tax bases are failing to keep pace with increasing costs; and (4) suburban areas contribute significantly to the fiscal problems of central cities. There is no basic agreement among those interested in municipal overburden on the best way to relieve the problem. Some suggest that the state assume greater direct responsibility for educational costs, or, alternatively, provide additional state funds for noneducational services to free up local revenues for schools. Other researchers suggest that the way to solve municipal overburden is by an adjustment to the state school finance formula. It is difficult to assess the impact of municipal overburden on school finance because of definitional and measurement problems, as well as conceptual problems. There is still much for educators, economists, and policy-makers to learn about the complex interrelationships between educational and noneducational finance. (Author/JG)

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MUNICIPAL OVERBURDEN

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MUNICIPAL OVERBURDEN

Introduction

In January, 1976 the school boards of New York City, Rochester, Syracuse, and Buffalo, as well as the City of New York and others intervened in a law suit challenging the State education aid formula.[1] The law suit had been initiated by 25 suburban and rural school districts challenging the impact of the State's school finance system on districts of lesser wealth.

However, the urban districts' challenge goes beyond the basic argument of the original plaintiffs by focusing on three interrelated issues: (1) Municipal overburden, (2) Urban school costs overburden, and (3) The overburden of educationally disabled and special need students. The urban districts assert that while they have the greatest public education fiscal burden in the state, the levels of state education assistance they receive are almost the lowest.[2] They hold that this is a discriminatory allocation of state school aid and, therefore, a violation of the equal protection guarantees and a denial of public education opportunity under the Constitutions of the State of New York and the United States.

The issue of municipal overburden has, therefore, become one of the central points in a legal challenge to New York's state school finance system. Municipal overburden is defined as the extent to which the fiscal capacity of a city is diminished by the revenue demands of noneducational services. The tax base of large cities must support, not only public schools, but a variety of other public functions, such as: police and fire protection,

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[1] Pre-Trial Memorandum for Plaintiffs-Intervenors in the case of Board of Education, Levittown Union Free School District, Nassau County, et al. v. Edwald B. Nyquist, Commissioner of Education, et al., Supreme Court of the State of New York, County of Nassau, January, 1976.

[2] Ibid., p. 5.

health and hospitals, sanitation, city streets, and welfare. It is argued that the existence of municipal overburden depresses the educational tax rate, thereby, limiting the availability of local revenues for schools. Because of municipal overburden, schools must compete with other governmental services for their share of local revenues from a limited tax base. In most cities the property tax base is being strained beyond its relative capacity to support additional demands made upon it.

Causes of Municipal Overburden

Several major reasons for municipal overburden have been identified by authorities:

1. It is more expensive to provide public services in urban areas than in suburban and rural areas. Gurwitz[3] reports that in fiscal year 1972-73, New Jersey municipalities spent an average of $142.80 per capita for noneducational local government services, whereas, the average for 17 selected cities was $180.02, or 26 percent more. Callahan and Harris[4] indicated that for 44 cities they had studied, per capita police costs averaged 53 percent higher than state average; fire protection expenditures, 91 percent higher; and refuse collection and disposal expenditures, 87 percent higher. In 1969, New York City spent $488 per capita for a number of municipal services, but the surrounding counties of Rockland, Suffolk, Nassau, and Westchester expended only between $195 and $291 per capita for

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[3] Aaron S. Gurwitz, Urban Schools and Equality of Educational Opportunity in New Jersey: A Report of the New Jersey Education Reform Project (Newark, New Jersey: Greater Newark Urban Coalition, 1974), p. 9.

[4] John J. Callahan and William T. Harris, "Year-Round Schools and Urban School Finance." Paper presented at the 5th National Seminar on Year-Round Schools, Virginia Beach, Virginia, May 10, 1973. p. 7.

the same services. The state average in New York for that group of municipal services was $348 per capita.[5] It should be noted that the state average figure included the higher city figures.

In 1973 Rochester spent an average of $311 per capita for city current expenditures, whereas, the balance of Monroe County expended an average of only $77 per capita.[6] A similiar pattern existed for Syracuse and Buffalo. New York City had a per capita expenditure on non-school current operations of $830. The state's average per capita amount for the same costs was $399. New York City expended $225 per capita for the current operations of schools, whereas, the remainder of the states was able to spend $362 per capita for school costs.[7]

Similiar data for other city-state comparisons suggest that on the average cities used about 33 percent of local revenues for public education. The states averaged about 46 percent of their revenues for education.[8]

Because of the higher cost of providing public services in urban areas, the total tax rate is often above the state average. However, the educational tax rate is usually low compared to state average. For example, the share of tax rate for school purposes was 28.1 percent in New York City, 46.2 percent in Nassau County, and 36.6 percent for the State.[9]

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[5] Pre-Trial Memorandum, p. 20.

[6] Ibid., Table 2.

[7] Ibid., Table 5.

[8] Callahan and Harris, "Year-Round Schools and Urban Finance," p. 8.

[9] Pre-Trial Memorandum, Table 8.

2. The socioeconomic characteristics of urban residents are such that heavy demands are placed on the public sector for municipal service requirements. Urban areas have a higher concentration of poor people. In New York State the percent of families with incomes under $3,000 was consistently higher in the five largest cities than in the remainder of their respective county area.[10] As a result median family income was lower in the central cities and higher in the county areas. Welfare recipients concentrated in New York City at the rate of 132.4 per 1,000 population. The welfare recipient rate for the rest of the state was only 42 per 1,000 population.[11] Unemployment rates in the four largest cities of New York were higher than the rates in the surrounding county areas.[12] Crimes per 100,000 population were also higher in the central cities than in the remainder of their respective SMSA.[13]

3. The tax base of cities is failing to keep pace with increased costs. The property market values in central cities are increasing at a much slower rate than in other areas. Between 1970 and 1973, property market values had a median increase of 29 percent for all communities in New York State, but increases of only 4.5 percent in New York City, 6.3 percent in Rochester, 16 percent for Syracuse, and 20 percent in Buffalo.[14]

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[10] Ibid., Table 6.

[11] Ibid., Table 12.

[12] Ibid., Table 13.

[13] Ibid., Table 9.

[14] Ibid., pp. 16-17.

Central cities have a high concentration of tax-exempt property in the form of churches, public buildings, charitable organizations, private schools, parks, and the like. Urban renewal takes a toll on the tax base when deteriorating property is removed and public housing errected. Freeway construction also removes property from the tax base.

In most central cities the stock of housing is old and, in many cases, in need of major repairs. Soon such housing will be less utilized and the property values will begin a sharp decline.

Not only is the property tax base failing to keep pace with increased costs, but the income base of residents is also falling behind. There was an inverse relationship between the population size of cities and the annual percentage of income growth during the four year period from 1969-1973.[15] That is to say, the larger the population category, the smaller the rate of income growth. This problem has been exacerbated by the flight of upper and middle class families from the cities to the relative security of the suburbs. This outmigration of relatively well-off families has left the central city impacted with higher concentrations of the old, the poor, the jobless, the untrained, and the ill. These people are the ones most desperately in need of a wide-variety of public services. While the magnitude and cost of these services has continued to increase, the tax and income bases have fallen further behind.

4. The suburban areas contribute significantly to the fiscal problems of central cities[16]. The suburbs house many of the commuters who travel into

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[15]Thomas Muller, Growing and Declining Urban Areas: A Fiscal Comparison (Washington, D.C.: The Urban Institute, 1975), p. 13.

[16]LeRoy J. Peterson, Municipal Overburden, State-of-the-Knowledge Series, No. 13 (Eugene, Oregon: ERIC Clearinghouse on Educational Management, 1971), p. 3.

the central cities during working hours for their jobs. The daily influx of these individuals and many others requires additional public services to accomodate their presence, i.e. traffic control, police protection, fire protection, and sanitation services. It has been reported that suburban areas create a labor market and "demonstrations" effects that drive up the salaries and wages of central city employees, as well as, providing a standard of education which the cities attempt to follow.[17] These factors tend to drive costs up and place an additional burden on municipal budgets.

Impact of Municipal Overburden on School Finance

According to Sacks and Callahan[18], educational finances have become more balanced between the central city and suburb over time. Among the 72 largest metropolitan areas, only 20 central cities spent less per pupil on education than their surrounding suburbs. In 47 instances, central cities spent more than their suburbs for education, and in over 20 cases central cities spent $100 per pupil more than their suburbs.[19] However, it should be noted that as of 1972, 43 suburban areas received more per pupil aid than their city counterpart, whereas, only 13 of the central city areas received more of their educational budget in the form of aid.[20] This is not surprising given the traditional manner in which state school aid is apportioned among districts, that is, in an inverse relation to local wealth. With the traditional measure of local wealth being

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[17]David C. Rumney, "The Impact of Metropolitanism on Central City Education," Educational Administration Quarterly, vol. 5 (Winter 1969), p. 31.

[18]Seymour Sacks and John Callahan, "Central City Suburban Fiscal Disparity," City Financial Emergencies: The Intergovernmental Dimension (Washington, D.C.: Advisory Commission on Intergovernmental Relations, 1973), p. 143.

[19]Ibid.

[20]Ibid.

assessed valuation per pupil, central city schools appear relatively wealthy because of higher concentrations of commerical and nonresidential property and lower enrollment ratios. This measure disregards the low income of urban residents and the fact that some of the tax base is preempted by municipal overburden.

It appears, then, that the reduction of educational expenditure differentials between the central city and the suburbs has been the result of additional effort on the part of the central city given the presence of low incomes and municipal overburden. Increased effort could, perhaps, be best explained by the impact of high need children and higher factor costs in cities that tend to push expenditures requirements up.

It is often suggested that schools in urban areas must compete with other public services for the limited fiscal base. Indeed, this is the essence of the municipal overburden argument. This competition for additional revenues from a limited tax base has been referred to as a "zero-sum" position[21], that is, the gains made by the educational sector come at the expense of the noneducational sector and vice versa. The "zero-sum" position assumes a negative relationship between the levels of educational and noneducational taxes and expenditures. Sacks' research tends to discount the assumption. He concluded that the relationship was additive for the cities..." in other words, the levels of educational and noneducational

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[19]Ibid

[20]Ibid.

[21]Seymour Sacks, City Schools/Suburban Schools: A History of Fiscal Conflict (Syracuse, New York: Syracuse University Press, 1972), p. 112.

expenditures are more likely than not to move together.[22] It should be noted that 1964-65 data were the basis of Sacks' findings and conclusion.

This finding should not be surprising, though, given the relative increases in public expenditures at all levels of government in recent years and the increased collective bargaining finesse of teacher unions.

However, the economic realities of the mid-1970's would suggest that there may be practical limits to increased public expenditures. The "zero-sum" argument may be at work as taxpayers resistence has increased and the cost of government has continued to increase.

Corrections for Municipal Overburden

There does not seem to be basic agreement among those interested in municipal overburden on the best way to relieve the problem. Benson[23] has suggested that the state assume greater responsibility for financing nonschool services. He contends that the objective of public policy should be to attack the problem of municipal overburden directly rather than attempting to take care of it through adjustments in school grants.

The Urban Institute[2] advocated either providing additional state funds directly for education, thereby, relieving local tax burden for other public services, or providing additional state funds for noneducational services to free up local revenues for schools.

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[22] Ibid.

[23] Charles S. Benson, The Economics of Public Education, 2nd Ed. (Boston: Houghton Miffin Company, 1968), p. 32.

[24] Betsy Levin, Thomas Muller, Corazon Sandoval, The High Cost of Education in Cities (Washington, D.C.: The Urban Institute, 1973), p. 74.

Peterson[25] has summarized the roles of the three levels of government in correcting municipal overburden:

Federal Action - federal revenue sharing funds and categorical aid to states aimed specifically at urban problems;

State Action - direct state aid to cities, state assumption of either educational or noneducational costs, government reorganization to eliminate overlapping taxing jurisdictions and to increase the size of the available tax base, give more taxing power to local governments and remove undesirable fiscal restraints, and state revenue sharing.

Local Action - reorganization of local government units, use of nonproperty taxes, and the improving the property tax to maintain it as a major source of revenue for local governments.

Other researchers have suggested that the way to solve the problem of municipal overburden is by an adjustment in the state school finance formula. Mort[26] recommended in 1961 that the valuation of a school district be reduced in proportion to the ratio of its municipal costs to a normative cost figure for the state. Lindman[27] developed a local tax allocation correction factor to be used in state aid equalization formulas to adjust for the effects of municipal overburden. This factor adjusts the local contribution by population ratios.

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[25]LeRoy S. Peterson, Municipal Overburden, pp. 8-18.

[26]Cited in Austin D. Swanson, "An Analysis of the Fiscal Problems of Large City School Systems," Urban Education, vol 1, (Spring 1965), pp 159-160.

[27]Erick L. Lindman, State School Support and Municipal Government Costs, Cooperative Research Project No. 2123, (Los Angeles: University of Califor ia, 1964), pp 8-9.

The National Urban Coalition[28], has developed a multifactor index that describes the relative overall fiscal position of a school district with regard to selected need, cost, wealth, and tax effort factors. State aid would be apportioned on the basis of this "deservedness" index. In 1962-63 a density-or-size correction factor was included in the New York school aid formula.[29] This correction factor provided New York's six largest cities, an additional ten percent of the regular school operating expense from the State. The proportion was increased to 17.5 percent in 1966-67. However, the size correction and all general urban aid were discontinued in 1974-75.

Michigan school finance law[30] recognizes the existence of municipal overburden by providing a direct aid payment to districts in which the tax rate for nonschool purposes exceeds 125 percent of the state average. Pennsylvania, Ohio, Maryland, and Colorado[31] use population density corrections with the consequence of additional state aid for the states' largest cities. Florida[32] uses a cost-of-living adjustment which has the effect of providing additional state money to urban areas.

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[28]John J. Callahan, William H. Wilken, and M. Tracy Sillerman, Urban Schools & School Finance Reform: Promise and Reality, (Washington,D.C. The National Urban Coalition, 1973) p 16.

[29]Pre-Trial Memorandum, Table 21.

[30]From Serrano to Serrano (Denver, Colorado: Education Commission of the States, 1975), p 18.

[31]Pre-Trial Memorandum, p 29.

[32]Marshall A. Harris, "The Florida Education Finance Program Act of 1973: An Overview and Analysis," (Tallahassee, Florida: Office of the Governor, 1974) p 4.

Netzer[33] was critical of special urban aid designed to compensate for any municipal overburden. He contends that such state aid is not school aid at all, but rather aid necessitated by and designed to help finance non-school public services. This is particularly true in cities with a fiscally dependent school system because any additional aid, not specifically earmarked, becomes part of the total resources with the effect of alleviating overall fiscal pressures. Even in fiscally independent school districts, special urban aid may become a substitute for local effort, that is, a reduced tax burden. Assuming a "zero-sum" effect, any reduction in school tax rates would likely cause an increase in tax rates for other purposes.

The direct impact of municipal overburden on school finance is difficult to assess for a number of reasons, including: definitional and measurement problems, as well as, conceptual problems.

Problems Associated with the Concept of Municipal Overburden

Peterson[34] concluded, after an extensive review of the literature on municipal overburden, that an adequate definition was lacking. He raised a number of questions in the absence of a careful definition of municipal overburden:

1. What items are included in it?
2. Is the overburden determined by the tax rate only? By the tax rate in relation to fiscal capacity? By expenditures for municipal purposes? Or by expenditures for municipal and county purposes?

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[33] Dick Netzer, "State Education Aid and School Tax Efforts in Larger Cities," Selected Papers in School Finance 1974 (Washington, D.C.: Department of Health, Education, and Welfare, 1974) p 199.

[34] LeRoy J. Peterson, Municipal Overburden, p 19.

3. Absent are measures of the costs of projected municipal services, the municipal fiscal capacity, and the relationship of the two.

Brazer[35] has also raised a number of important conceptual issues related to municipal overburden:

1. How does distinguished "municipal overburden" from a community's greater taste for public goods?

2. How does one adjust for the fact that in some jurisdictions certain services such as fire protection, sanitation , and even schooling are largely provided privately, while in others they are provided publicly?

3. How does one account for the alternatives to public service costs incurred by those living in uncongested areas? The city dweller may pay taxes for police protection, but the suburban commuter pays for the equivalent protection by driving two hours a day to get to and from an area inaccessible to criminals.

4. Should society compensate or subsidize persons who choose to live in jurisdictions with excessively high social costs? Some parts of the high public service costs of cities may simply reflect the inefficiencies of too dense concentrations of population. The cities will never thin out if these excess costs are subsidized by higher levels of government.

One of the more basic problems associated with municipal overburden relates to its measurement. Tax burden comparisons are often used to demonstrate the existence of municipal overburden. Conventional tax burden measures (taxes as a percent of personal income), ignore the fact that not all taxes are paid at the point of impact. That is, a certain portion of taxes can be "exported" to nonresident consumers or owners.

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[35]Harvey E. Brazer, Fiscal Needs and Resources: a Report to the New York State Commission on the Quality, Cost and Financing of Elementary and Secondary Education cited in Robert D. Reischauer and Robert W. Hartman, Reforming School Finance (Washington, D.C.: The Brookings Institution, 1973), p 71.

Netzer[36] has suggested that the best available measure of municipal overburdon is the higher percentages of personal income absorbed by "locally-borne" local taxes in central cities than in the rest of their SMSAs. This measure is based on the assumption that part of the local tax burden can be "exported" to consumers, owners, and workers residing in other jurisdictions. "Locally-borne" taxes, therefore, are those taxes that have been adjusted for exporting.

Based on certain assumptions about the proportion of local taxes that can be exported to residents of other jurisdictions, Netzer calculates the tax burdens of eight central cities and the rest of their SMSA. Table I shows the results of his calculations for tax burden adjusted for exporting. The tax exporting adjustment tends to minimize the disparities between the central city and the SMSA. Netzer, concluded that certain central cities, may in fact, be underburdened relative to their suburban areas.

It is important that some recognition of the exporting issue be given. Otherwise, it is probable that conventional tax burden measures will overstate "true" economic burdens in the central cities. The central city, in fact, is more equipted to export taxes because of the high impact of business property and the greater use of local nonproperty taxes.

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[36]Dick Netzer, "State Education Aid and School Tax Efforts in Large Cities," p 168.

TABLE I

LOCAL TAXES AS PERCENT OF PERSONAL INCOME, 1971-72

	All Local Taxes	Estimated "Locally Borne" [a]
Baltimore		
Central City	6.73	4.51
Rest of SMSA	4.98	3.61
Boston		
Central City	9.96	5.52
Rest of SMSA	6.99	5.39
Chicago		
Central City	6.84	3.88
Rest of SMSA	5.88	3.78
Cleveland		
Central City	8.44	4.49
Rest of SMSA	5.28	3.49
Detroit		
Central City	6.99	4.00
Rest of SMSA	4.98	3.01
New York		
Central City	9.05	5.65
Rest of SMSA	7.66	5.21
Philadelphia		
Central City	7.10	4.84
Rest of SMSA	4.58	3.89
St. Louis		
Central City	8.65	5.25
Rest of SMSA	4.74	3.53

[a] Local taxes after adjustment for exporting

Source: Dick Netzer, "State Education Aid and School Tax Effort in Large Cities," Selected Papers in School Finance 1974 (Washington, D.C.: U.S. Department of Health, Education, and Welfare, 1974).

Summary and Conclusions

To address the conceptual and methodological problems associated with municipal overburden is not to minimize the totality of urban school finance problems. There is still much for educators, economists, and policy makers to learn about the complex interrelationships between educational and noneducational finance. It is in this set of relationships that the problem of municipal overburden arises.

For the past 15 or more years educators and others have been grappling with the problem of municipal overburden. Given the number of unanswered questions and unresolved conceptual problems, it is no wonder that few practical solutions have been formulated for dealing with the problem. Professor Lindman has been one of the few researchers who has developed an empirical formula for adjusting school finance plans for municipal overburden.

Peterson[37] very succinctly, states the essence of the municipal overburden issue:

> The identification of the cost of all essential services provided within an organizational structure of government of sufficient size to supply these services efficiently and economically is the sine qua non of relief for municipal overburden. Besides this knowledge of what essential municipal services should cost, correction of municipal overburden also requires a sound measure of the fiscal capacity of the municipality including its income as well as its equalized value of property.

In lieu of an immediate response to municipal overburden, educators and policymakers would be advised to consider solutions that get to the heart of the urban fiscal problems. These would include such things as:

1. Adjust the computation of local wealth to include some income measure.

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[37] LeRoy J. Peterson, Municipal Overburden, p 20.

2. Utilization of cost differentials to recognize the high cost of special programs that are needed in urban areas, i.e.: special education, compensatory education, vocational education, and early childhood education.

3. Allocate state school aid on the basis of enrollment rather than attendance.